



# The Legal 500 Country Comparative Guides

## Cyprus: Blockchain

This country-specific Q&A provides an overview of blockchain laws and regulations applicable in Cyprus.

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- 1. Please provide a high-level overview of the blockchain market in your jurisdiction. In what business or public sectors are you seeing blockchain or other distributed ledger technologies being adopted? What are the key applications of these technologies in your jurisdiction?**

The Cyprus government published its National Blockchain Strategy (“NBS”) on May 2019, with the core aim to promote the development of the blockchain technology through innovation and the cooperation of the public and private sector. The government collaborated with various entities, both in the public and private sector, in order to identify the needs of the market and committed to implement the NBS, in order to enter into the new era of digitalisation.

Generally, the aim is to optimise the services offered by the public and private sector. This could be achieved by introducing blockchain to areas of interest, such as the regulatory and compliance system, the education system, the land registry and the national health system.

In the absence of a legal framework, the Cyprus blockchain market is developing gradually. Nevertheless, there has been an immense interest in the use of blockchain as the underlying technology from entities involved in the finance and regulatory tech space.

- 2. To what extent are tokens and virtual assets in use in your jurisdiction? Please mention any notable success stories or failures of applications of these technologies.**

There has been a considerable interest in projects utilizing the blockchain technology in Cyprus however, very few have been materialized so far. As also mentioned in question 11 below, we have seen Cyprus companies launching initial coin offerings, mainly offering utility tokens quite successfully not falling however under the existing legal framework of securities offering.

- 3. Has COVID-19 provoked any novel applications of blockchain technologies in your jurisdiction?**

The pandemic of COVID-19 has not provoked any specific applications of blockchain technologies as yet, even though we have witnessed the promotion of technology in general from various state departments.

- 4. Please outline the principal legislation and the regulators most relevant to the use of blockchain technologies in your jurisdiction. In particular, is there any blockchain-specific legislation or are there any blockchain-specific regulatory frameworks in your jurisdiction, either now or envisaged in the short or mid-term?**

Currently, there is no specific legislation governing the application and use of blockchain and therefore, there are not any specific rules to be followed or any authorization requirements,

when applying the blockchain technology. However, the NBS will be implemented through a specific blockchain legislation which is currently under drafting. Additionally, certain laws will be amended in order to tackle any issues which may arise from the application and the effects of blockchain. Indicatively, such laws include the Anti-Money Laundering Law, the Tax Law and the Company Law.

**5. What is the current attitude of the government and of regulators to the use of blockchain technology in your jurisdiction?**

The Cyprus government embraces the introduction of blockchain technology and there is the willingness to adopt the necessary measures.

**6. Are there any governmental or regulatory initiatives designed to facilitate or encourage the development and use of blockchain technology (for example, a regulatory sandbox)?**

In October 2018, the Cyprus Securities and Exchange Commission (“CySEC”) launched its innovation hub, with the aim to create communication channels between CySEC and entities, both in Cyprus and abroad, which are involved in the financial and regulatory technology space. By applying to the innovation hub, an entity receives an opinion on how its project will be treated under the existing regulations, since there is not official guidance for Financial Technology (“FinTech”) and Regulatory Technology (“RegTech”). Additionally, the innovation hub aims to the enhancement of investors’ protection and to the improvement of the efficiency of the market. It is expected that the Central Bank of Cyprus will launch its own innovation hub regarding blockchain, cryptocurrencies and virtual assets.

**7. Have there been any recent governmental or regulatory reviews or consultations concerning blockchain technology in your jurisdiction and, if so, what are the key takeaways from these?**

Following the publication of the NBS, an ad hoc committee, consisting of lawyers, technical experts and other related professionals was created to establish guidelines relating to the drafting of the legislation and to recommend the potential use cases of the blockchain technology. It is worth mentioning that blockchain is an academically active topic, with many academics and commentators publishing related articles.

The Cyprus Blockchain Association (“CBA”) and the Cyprus Blockchain Technologies (“CBT”) are two non-governmental and non-profitable organisations which provide information and guidelines on the potential use of blockchain technology. More specifically, they organise trainings, executive seminars and conferences of blockchain matters and educate communities and organisations for the use of blockchain. Both organisations are actively participating in the efforts of the government to create a blockchain-friendly environment.

Furthermore, the Cyprus Organisation for Standardisation (“COS”) is planning to establish a

National Mirror Committee. The duties of this committee will be the observation and evaluation of the standardization work of international and European standardization organizations, regarding blockchain and the active participation in international committees for the promotion of national interests and the expansion of their knowledge and experience in the implementation of standards.

**8. Has any official guidance concerning the use of blockchain technology been published in your jurisdiction?**

There is no official guidance on blockchain use in Cyprus. However, CySEC's innovation hub provides some clarity on to what extent the blockchain may be applied within the framework of existing financial legislation.

**9. What is the current approach in your jurisdiction to the treatment of cryptocurrencies for the purposes of financial regulation, anti-money laundering and taxation? In particular, are cryptocurrencies characterised as a currency?**

Cryptocurrencies are not characterised as a currency in Cyprus and there is no specific legislation for their treatment just yet. Nevertheless, relevant legislation is under drafting expected to regulate the types of cryptoassets and the scope of their treatment.

The regulation of cryptoassets is also expected to fall under the regime of 5<sup>th</sup> European Union Anti-Money Laundering Directive ("AMLD5") which is expected to be implemented in national legislation soon.

The taxation regime in Cyprus does not provide specific treatment for cryptocurrencies. Cryptoassets are expected to be taxed based on the nature of different tokens as shall be defined in the upcoming legislation. The NBS clarifies that a friendly taxation environment should be established, in line with the European and international obligations.

**10. Are there any prohibitions on the use or trading of cryptocurrencies in your jurisdiction?**

There is no express prohibition regarding the use or trading of cryptocurrencies in Cyprus. CySEC has issued a circular<sup>[1]</sup> according to which any activities relating to virtual currencies, including trading, are not regulated by CySEC, unless such activity falls within the existing regulatory framework. In view that derivatives on virtual currencies are considered as financial instruments then providing investment services in relation to such products will require specific authorisation. Furthermore, the Central Bank of Cyprus has issued several warnings regarding the high volatility of cryptocurrencies and the risks associated with virtual currencies.

**[1]** CySEC circular 268 dated 15.05.2018

**11. To what extent have initial coin offerings taken place in your jurisdiction and what has been the attitude of relevant authorities to ICOs?**

In Cyprus, there is no regulatory framework regulating ICOs and thus no legal basis for prohibiting this alternative method of financing innovative projects as at this time.

The Cyprus Securities and Exchange Commission (CySEC) at first maintained an introvert approach towards ICOs. Through its own announcement<sup>[2]</sup>, CySEC has drawn the attention to investors and firms involved in ICOs to the warnings and statements of the European Securities and Markets Authority (ESMA) on the issue. CySEC wanted to emphasize that ICOs, depending on the way they are structured, may fall within the scope of existing EU legislation.

The increasing interest for financial technology though took CySEC a step further launching its Innovation Hub giving guidance to innovative products including token offerings that fall within the existing regulatory framework and thus under its supervision.

There have been cases where Cyprus companies have been used for initial coin offerings, mainly utility token offering not falling within the existing regulatory framework, but yet again to a limited extent.

**[2]** CySEC announcement dated 15.11.2017

**12. If they are permissible in your jurisdiction, what are the key requirements that an entity would need to comply with when launching an ICO?**

As mentioned above, there is no specific regulatory framework on ICOs. Nevertheless, an entity when launching an ICO should, among others, consider very carefully:

- Whether tokens issued are considered securities or financial Instruments under MiFID II and generally MiFID II compliance;
- Whether it falls within the provisions of the Prospectus Directive;
- Whether it may qualify as a licensed investment scheme;
- Compliance with legislation on Anti Money Laundering (AML) and GDPR;
- Possible tax implications for the parties involved.

**13. Is cryptocurrency trading common in your jurisdiction? And what is the attitude of mainstream financial institutions to cryptocurrency trading in your jurisdiction?**

Many individuals trade cryptocurrencies through online exchange platforms. However, the Central Bank of Cyprus, in line with the European Union's directives, has issued warnings regarding trading in virtual currencies.

**14. Are there any relevant regulatory restrictions or initiatives concerning tokens and virtual assets other than cryptocurrencies (e.g. trading of tangible property represented by cryptographic tokens)?**

The trading concerning tokens and virtual assets depends on the nature and characteristics of the tokens. Securities represented by cryptographic tokens shall be treated within the existing legal framework of the financial regulations.

**15. Are there any legal or regulatory issues concerning the transfer of title to or the granting of security over tokens and virtual assets?**

The establishment of the ownership of tokens and virtual assets is one the most important issues to be addressed. Additionally, the recognition of blockchain technology within the sphere of existing regulations and laws is a potential issue which may arise during the transfer of a title to or the granting of security over tokens and virtual assets.

**16. How are smart contracts characterised within your legal framework? Are there any enforceability issues specific to the operation of smart contracts which do not arise in the case of traditional legal contracts?**

There is not a definite opinion to what extent smart contracts are enforceable under Cyprus law, since there is not a legal framework or precedent by the courts regarding the treatment of smart contracts. However, being a common law jurisdiction, it is expected that Cyprus will adopt the position of other common law jurisdictions, with regards to smart contracts, their application and enforceability.

In general, admissibility issues may arise due to characteristics of smart contracts. Since smart contracts are codified and automatically performed, it is difficult to prove intention of the parties.. Additionally, issues of revocation, frustration or breach of contracts remain to be addressed.

**17. To what extent are smart contracts in use in your jurisdiction? Please mention any key initiatives concerning the use of smart contracts in your jurisdiction.**

Smart contracts are not widely used in Cyprus. However, the NBS and other initiatives recommend that a thorough framework should be established in order to integrate smart contracts in the Cyprus legal system. Additionally, the NBS strongly supports the use of smart contracts in view of the need for decentralization.

**18. Have there been any governmental or regulatory enforcement actions concerning blockchain in your jurisdiction?**

There are not any enforcement actions concerning blockchain in Cyprus so far.

**19. Has there been any judicial consideration of blockchain concepts or smart contracting in your jurisdiction?**

There is not any judicial consideration of blockchain concepts or smart contracts in Cyprus.

**20. Are there any other generally-applicable laws or regulations that may present issues for the use of blockchain technology (such as privacy and data protection law or insolvency law)?**

There is a considerable number of laws that have to be amended so as to implement the use of technology within their sphere such as laws on public offerings, companies' law, AML procedures, laws on capital markets etc.

There are other laws also that create challenges for the use of blockchain. Any application of blockchain technology must be GDPR compliant for example.

**21. Are there any other key issues concerning blockchain technology in your jurisdiction that legal practitioners should be aware of?**

Relevant legislation on blockchain and cryptoassets is expected to be introduced in Cyprus soon thus giving the use of such technology more certainty and a competitive edge to the country. Until the launch of relevant legislation though on the matter it is important to ensure that blockchain is used in the sphere of existing legislation.